

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)

VERIZON HAWAII INC.

DOCKET NO. 02-0415

For Approval of Changes to Its
Tariff to Introduce Local Package
Plus and to Allow Local Package
Plus Customers to be Eligible for
The Verizon Variations Internet
Access and Wireless Service
Discounts.

DECISION AND ORDER NO. 20195

Filed May 27, 2003
At 1:30 o'clock P.M.

Karen Higel.
Chief Clerk of the Commission

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ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

Commissioner, State of Hawaii
R. Dignel.

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DECISION AND ORDER

I.

By application, filed on December 6, 2002, VERIZON HAWAII INC. (Verizon Hawaii) seeks commission approval to amend P.U.C. Tariff No. 3, Section 24 to introduce a new package of telecommunications services to local residents known as Local Package Plus (LPP). Additionally, it requests commission approval to allow LPP customers to be eligible for Verizon Variations Internet access and wireless service discounts. In support of its requests, Verizon Hawaii filed a cost study for its LPP service offering on December 9, 2002. Hawaii Revised Statutes (HRS) § 269-16 and Hawaii Administrative Rules (HAR) §§ 6-61-111 and 6-80-35(e) were cited as the basis for Verizon Hawaii's requests.

Copies of the application and the cost study were served on the Department of Commerce and Consumer Affairs,

Division of Consumer Advocacy (Consumer Advocate).¹ No persons moved to intervene in this docket.

By statement of position filed on March 14, 2003, the Consumer Advocate informed the commission that it does not object to the approval of the instant application with certain qualifications.² By letter dated and filed on March 21, 2003, Verizon Hawaii expressed comments on certain portions of the Consumer Advocate's statement of position.

II.

Through LPP, Verizon Hawaii intends to offer residential customers with a new package of services at a discounted flat rate of \$49.95 per month. For this monthly charge, customers will be provided: (1) Residential Line (R1); (2) Touch Call; (3) unlimited Directory Assistance; (4) up to 14 Custom Calling features³; (5) optional Residential Home Voice Mail; and (6) unlimited Inter-island Toll telecommunications services. Commission approval is required since under LPP,

¹On December 12, 2002, Verizon Hawaii and the Consumer Advocate filed a proposed stipulation for protective order for the commission's consideration. On December 20, 2002, the commission issued Protective Order No. 19926.

²By letter dated and filed on February 13, 2003, the Consumer Advocate memorialized discussions between its staff and that of Verizon Hawaii, which took place on February 4 and 5, 2003, on LPP and a previously approved packaged service.

³Under this offering, customers chose from the following custom calling features: (1) Anonymous Call Block; (2) Busy Redial; (3) *69; (4) Call Block; (5) Caller ID; (6) Call Intercept; (7) Call Waiting/Cancel Call Waiting; (8) Call Forwarding; (9) Distinctive Ring; (10) Do Not Disturb; (11) Select Call Forwarding; (12) Speed Dialing; (13) Three Way Calling; and (14) Priority Call.

Verizon Hawaii is proposing to bundle telecommunications services that are considered to be fully competitive, noncompetitive, and non-regulated services. Specifically, Inter-island Toll is considered to be a fully competitive service; R1, Touch Call, Directory Assistance, and Custom Calling are said to be noncompetitive services; while Home Voice Mail is categorized as a non-regulated service. In this proceeding, Verizon Hawaii hopes to satisfy the requirements of HAR § 6-80-35(e). Under this rule, "[a] telecommunications carrier may not offer a noncompetitive telecommunications service jointly with any fully or partially competitive service or with any interstate, international, or other service not within the jurisdiction of the commission, except upon the commission's express approval."⁴ In turn, the commission's approval is "subject to a satisfactory showing by the telecommunications carrier seeking to offer such joint services that the costs of the fully or partially competitive service or the costs of the interstate, international, or other non-jurisdictional service are not subsidized by the noncompetitive service."⁵ HAR § 6-80-35(b) explains that, "[c]ross-subsidization is deemed to have occurred if: (1) [a]ny fully competitive or partially competitive service is priced below the total service long run incremental cost [(TSLRIC)] of providing the service; (2) [f]ully competitive services, taken as a whole, fail to cover their direct and allocated joint and common costs; or (3) [i]f fully competitive

⁴See HAR § 6-80-35(e).

⁵Ibid.

and partially competitive services, taken as a whole, fail to cover the direct and allocated joint and common costs."

Verizon Hawaii contends that LPP will provide customers with a flexible option that meets their communication needs while not resulting in cross-subsidization of services. It represents that the \$49.95 rate for LPP exceeds the underlying costs of the services in the package. As a safeguard, Verizon Hawaii states that it will utilize the same method to allocate LPP revenues between services that it does for a package known as Local and Toll Package (LTP, formally known as SoundDeal), a recommendation of the Consumer Advocate in Docket No. 01-0440. By utilizing this method, Verizon Hawaii represents that the revenues for each service will be recorded in the appropriate revenue accounts. It also represents that these revenues will exceed the underlying costs of each service.

Additionally, Verizon Hawaii maintains that allowing LPP customers to be eligible for Verizon Variations discounts for Internet access and wireless services will not result in cross-subsidization. By Decision and Order No. 19526, filed on August 15, 2002, in Docket No. 02-0183, the commission approved Verizon Hawaii's proposal to offer Verizon Interstate Toll service and Verizon Internet access services in conjunction with its LTP or Local Package services, on a promotional basis. By Decision and Order No. 19867, filed on December 10, 2002, in Docket No. 02-0390, the commission approved Verizon Hawaii's proposal to offer its Local Package service in conjunction with Verizon Inter-island and Interstate Long Distance services and

Verizon Wireless services, on a promotional basis. In approving both of these matters, the commission concluded that no cross-subsidization would result through the bundling of the services. Verizon Hawaii contends that the same rationale applies to its LPP service offering. Specifically, it contends that the noncompetitive services of LPP will not subsidize the costs of any of the Verizon affiliate services in these offering since each Verizon entity will account for the revenues and costs of its services on its own books, as it would under normal circumstances. Verizon Hawaii states that the discounts; \$15.00 on qualifying digital subscriber lines (DSL) or \$2.95 on qualifying dialup Internet access services,⁶ and \$5.00 on qualifying Verizon Wireless plans; will be absorbed by VOL and Verizon Wireless, respectively. Furthermore, Verizon Hawaii represents that allowing LPP customers to be eligible for these discounts will not negatively impact Verizon Hawaii's regulated revenues or its ratepayers.

III.

A.

In its analysis of Verizon Hawaii's application, the Consumer Advocate reviewed Verizon Hawaii's claim that the \$49.95 price for LPP is greater than the underlying costs of the individual items in the package by assessing Verizon Hawaii's methodology, assumptions, and assertions. In doing so, the

⁶Verizon Internet Services Inc. and GTE.Net LLC, dba Verizon Internet Solutions (collectively, VOL) provide Verizon residential DSL Internet services.

Consumer Advocate was concerned with cross-subsidization between the services in the package and what it calls intra-class subsidization.⁷ The Consumer Advocate was particularly concerned with Verizon Hawaii's cost estimates for the package's R1 and Touch Call components, which it appears to believe are understated.

With regards to R1, the Consumer Advocate claims that the cost estimate for this service excludes the 11.23 per cent surcharge (intrastate surcharge) that was previously authorized in another proceeding.⁸ Fearing cross-subsidization in violation of HAR § 6-80-35(e), the Consumer Advocate recommends that Verizon Hawaii's cost estimate for R1 service in LPP should be increased to include the intrastate surcharge.

On Touch Call, the Consumer Advocate is primarily troubled about the significant disparity between Verizon Hawaii's cost estimate for this service in this docket and that of Docket No. 01-0440. For Docket No. 01-0440, the Touch Call rate sponsored by Verizon Hawaii is said to be its tariff rate. In this matter, Verizon Hawaii is utilizing a cost estimate

⁷The Consumer Advocate maintains that intra-class subsidization is possible when customers not subscribing to LPP might be required to subsidize those customers who choose to subscribe to the packaged service.

⁸See Decision and Order Nos. 15345 and 15999, filed on January 31 and October 6, 1997, respectively, in Docket Nos. 94-0298 and 95-0194 (consolidated).

derived from its Basic Network Function cost study.⁹ While acknowledging that Verizon Hawaii's estimated cost for Touch Call may be more accurately represented in this docket, the Consumer Advocate fears that cross-subsidization of this service may occur if Verizon Hawaii is allowed to utilize the lower rate. In determining the reasonableness of this bundled package or the allocation of its profits, the Consumer Advocate recommends that the Touch Call rate projection used in the approval of LTP in Docket No. 01-0440 be applied in this docket.

Aside from setting new costs for R1 and Touch Call services for LPP, the Consumer Advocate also recommends that the commission adopt the following:

1. The estimated number of minutes for Inter-island Toll and the resulting cost used in establishing the price and profit for Inter-island Toll in LPP be adjusted to accommodate the cost changes for R1 and Touch Call;
2. As recommended by the Consumer Advocate and adopted by the commission in Decision and Order No. 19295 (Docket No. 01-0440), Verizon Hawaii should allocate any profits on a pro rata basis across the bundled services;

⁹The Consumer Advocate notes that Verizon Hawaii attempted to include the cost of Touch Call service as part of its basic service in past rate proceedings. It further notes that in Docket No. 7579, the commission did not allow Verizon Hawaii to make this change, but allowed it to continue to charge the original tariff rate for Touch Call service reasoning that any difference in the original tariff amount and the revised costs contributes to the overall cost of providing basic service.

3. Applicant shall continue to record revenues, expenses, and other matters for each service separately to help mitigate the possibility of cross-subsidization; and
4. Applicant will monitor toll usage statistics to verify that those services continue to be offered at a price that exceeds the costs incurred to provide unlimited Inter-island Toll.¹⁰

On Verizon Hawaii's request to allow its LPP customers to be eligible for Verizon Variations Internet access and wireless services, the Consumer Advocate does not object. It contends that consumers will benefit from the additional service offering and that approval of this request will encourage competition, among other things.

B.

In its March 21, 2003 letter, Verizon Hawaii expressly states that it "does not object to allocating the revenues" in the manner recommended by the Consumer Advocate; and that "there are no unresolved issues" in the instant docket. However, while accepting the Consumer Advocate's recommendations, Verizon Hawaii concomitantly provides certain comments on the Consumer Advocate's cost analysis of R1 and Touch Call services.

¹⁰With this recommendation, among other things, the Consumer Advocate notes that the commission might also consider requiring Verizon Hawaii's report to include available Directory Assistance usage statistics, since, among other things, Verizon Hawaii filed an application to modify its Directory Assistance tariff. See footnote 16 of this decision and order.

With regards to R1, Verizon Hawaii contends that the intrastate surcharge need not be applied to the LPP R1 rate since the surcharge will be applied to the LPP rate itself. Moreover, Verizon Hawaii states that previous cost studies for certain commission-approved packages (i.e., LTP, Local Package, and Local Package Standard) did not apply the surcharge to the R1 rate to represent the cost of R1 service. On Touch Call, Verizon Hawaii simply expressed that its estimated cost represents the TSLRIC of Touch Call and that Verizon Hawaii was reasonable to use this figure in its cost study since doing so complied with HAR § 6-80-42(d).¹¹

IV.

Aside from the Call Intercept feature, unlimited Directory Assistance component, and an increase in the monthly flat rate by \$10.00, LPP is almost identical to LTP, Verizon Hawaii's bundled service package approved in Docket No. 01-0440. In that docket, the commission expressed concern with Verizon Hawaii's attempt to offer unlimited Inter-island Toll as a component of LTP. Concerned that Verizon Hawaii's forecast of Inter-island Toll monthly minutes of usage (MOU) used to calculate its cost for this feature may be problematic, the commission first approved LTP with a cap on monthly MOU to the three-digit proxy figure identified in its

¹¹HAR § 6-80-42(d) states that "[a]ny cost study, where required, must include an analysis of the total service long run incremental cost underlying the service, unless ordered otherwise by the commission."

cost study, among other things, since the commission feared that this service could be provisioned below its incremental cost.¹² By Order No. 19295, filed on April 10, 2002, the commission, upon Verizon Hawaii's request for a reconsideration of Decision and Order No. 19221, allowed Verizon Hawaii to offer and provide LTP as a promotional program for a one-year period without a cap on monthly Inter-island Toll usage, conditioned on certain factors, as proposed by Verizon Hawaii.¹³ Subsequently, on December 6, 2002, Verizon Hawaii filed transmittal no. 02-82 seeking to grandfather its LTP offering, effective January 6, 2003, and prematurely discontinuing LTP for new customers. Verizon Hawaii explained that it was unable to continue to offer LTP due to the significantly higher than expected per customer use of the unlimited Inter-island Toll feature of the package.¹⁴

Using Inter-island Toll usage data from Docket No. 01-0440, Verizon Hawaii calculated, with certain assumptions, the cost of the unlimited Inter-island Toll component of LPP. In calculating the cost for this feature, Verizon Hawaii allowed for a higher monthly MOU than what was

¹²See Decision and Order No. 19221, filed on February 26, 2002, in Docket No. 01-0440, at 8-11.

¹³Verizon Hawaii filed its Motion for Reconsideration of Decision and Order No. 19221 and a memorandum in support of its motion on March 6, 2002.

¹⁴Pursuant to Order No. 19946, filed on January 3, 2003, which approved transmittal no. 02-82, Verizon Hawaii filed its phase-out plan for existing customers of LTP for commission review on January 23, 2003.

shown in the data collected on LTP¹⁵; nonetheless, upon our review of the data, we are still concerned that customer use of the unlimited Inter-island Toll feature of LPP may exceed Verizon Hawaii's proxy MOU level which could result in the provision of this service at price lower than its incremental cost. However, while we suspect that some problems could arise, as it did with Verizon Hawaii's LTP offering, the commission believes that it is reasonable, at this time, to emulate its decision in Docket No. 01-0440. Additionally, if monthly customer use of unlimited Inter-island Toll is higher than Verizon Hawaii assumptions for LPP, we expect Verizon Hawaii to act in this docket as it did in Docket No. 01-0440.

With regards to the Touch Call component of LPP, the Consumer Advocate's concerns appear to be reasonable. Holding Verizon Hawaii to a cost estimate that it used to advance LTP in Docket No. 01-0440 is not, at this time, unreasonable, and in light of the Consumer Advocate's cross-subsidization concerns, we believe that the most prudent course, at this time, is to adopt the Consumer Advocate's position on Touch Call. However, with regards to R1 service, we believe that the Consumer Advocate's concerns may be unfounded since: (1) Verizon Hawaii represents that it will apply the intrastate surcharge on the LPP rate itself; and (2) reviews of cost studies for certain approved bundled offerings in the past did not include the surcharge on the R1 component. Thus, we find good cause to disregard the

¹⁵See Verizon Hawaii's Cost Study filed on December 9, 2002 (Cost Study), Attachment 1, page 1 of 2.

Consumer Advocate's R1 cost recommendation. Upon review of the Consumer Advocate's other recommendations, we find them to be reasonable including, but not limited to, its recommendation that the commission require Verizon Hawaii to submit a monthly usage report of Directory Assistance.¹⁶ Accordingly, we find good cause to adopt the Consumer Advocate's recommendations on LPP, aside from those related to R1 service.

Moreover, upon review, the commission will allow LPP customers to be eligible for Verizon Variations Internet access and Verizon wireless service discounts. Our decision is based on Verizon Hawaii's representations in this docket and our findings and conclusions in Docket Nos. 02-0183 and 02-0390.

Based on the above, we conclude that Verizon Hawaii has satisfied the requirements of HAR § 6-80-35(e), at this time. Thus, the commission will allow Verizon Hawaii to offer LPP, effective the date of this decision and order, provided that Verizon Hawaii adheres to certain amendments and conditions. If Verizon Hawaii chooses to provide this offering, it must:

1. Only provide this service as a one-year promotional offering, and specifically reflect this change, with an effective beginning and end

¹⁶On February 11, 2003, Verizon Hawaii, filed an application requesting commission approval to decrease the allowance for Directory Assistance from 10 calls per billing month to two and to increase the charge for calls over the allowance from \$0.20 to \$0.50, see Docket No. 03-0034. This is a matter pending before the commission. The commission's decision in Docket No. 03-0034 may affect the matters in this docket since Verizon Hawaii's representations on the unlimited Directory Assistance component of LPP references the 10 calls per billing month allowance. See Cost Study, Attachment 1, page 2 of 2.

date, in its initial tariff. Similar to certain factors of Docket No. 01-0440, Verizon Hawaii will closely monitor Inter-island Toll usage by LPP customers to determine whether its projections are reasonable.

(a) If the actual, aggregate Inter-island Toll usage is consistent with Verizon Hawaii's LPP cost study projections, as amended to account for the cost change to Touch Call, the commission will consider approving LPP on a permanent basis.

(b) However, if the actual, aggregate Inter-island Toll usage causes Verizon Hawaii to provide LPP below cost, Verizon Hawaii shall amend its tariff to incorporate appropriate modifications to ensure that the offering complies with all of the commission's pricing rules including, but not limited to, HAR § 6-80-35(b).

No later than 30 days before the expiration of the one-year promotional period, Verizon Hawaii shall file a report on aggregate Inter-island Toll MOU for LPP, on a monthly basis, with two copies served on the Consumer Advocate. For each month, the report must show: (a) the total MOU for all LPP customers; (b) the number of LPP customers; and (c) the average monthly MOU for each LPP

customer. Similar information shall be filed for Directory Assistance usage. Concomitantly or earlier, as necessary, Verizon Hawaii shall make a filing: (a) to request commission approval to provide LPP on a permanent basis, with all necessary applicable support for its position; or (b) modifying its LPP offering to ensure that it complies with all of the commission's pricing rules, for our consideration.

2. Incorporate the Consumer Advocate's recommendation on Touch Call and make appropriate adjustments to its estimated number of minutes for Inter-island Toll and the resulting cost used in establishing the price and profit of this component of LPP. For the record, within 30 days of the date of this decision and order, Verizon Hawaii shall make a filing, with two copies to the Consumer Advocate, evidencing the incorporation of the Consumer Advocate's recommendation on Touch Call and the appropriate adjustments to its estimated number of minutes for Inter-island Toll and the resulting cost used in establishing the price and profit for this element of the package.
3. As required in Docket No. 01-0440, Verizon Hawaii shall allocate any profits on a pro rata basis across the bundled services.

4. Verizon Hawaii shall continue to record revenues, expense, and other matters for each service separately to help mitigate the possibility of cross-subsidization.
5. Verizon Hawaii shall be held to the representations set forth in this docket, as applicable, including, but not limited to, its representation that it will apply the intrastate surcharge to its LPP rate.

Lastly, the commission will approve Verizon Hawaii's request to allow its LPP customers to be eligible for Verizon Variations Internet access and wireless discounts.

V.

THE COMMISSION ORDERS:

1. Verizon Hawaii's LPP offering is approved, effective the date of this decision and order, on a one-year promotional basis, provided that Verizon Hawaii complies with all of the changes and conditions set forth in section IV of this decision and order.


2. Verizon Hawaii's request to allow its LPP customers to be eligible for Verizon Variations Internet access and wireless discounts is approved.

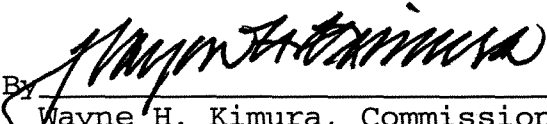
3. Within 10 days of the date of this decision and order, Verizon Hawaii shall file initial tariff sheets consistent with the commission's directives in this decision and order and reflecting the appropriate issue and effective dates.

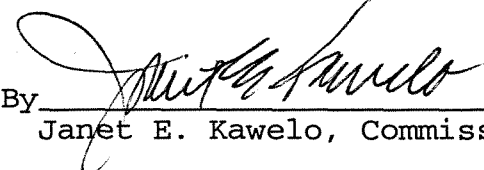
4. All promotional materials and marketing of LPP must expressly disclose to potential customers that it is a promotional offering with an end date.

DONE at Honolulu, Hawaii this 27th day of May, 2003.

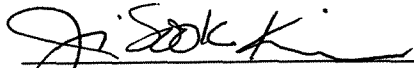
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:


Ji Sook Kim
Commission Counsel

02-0415.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 20195 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
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Karen Higashi

DATED: May 27, 2003